BANK OF ENGLAND
PRUDENTIAL REGULATION AUTHORITY

FCA FINANCIAL CONDUCT AUTHORITY

Consultation Paper | PRA CP3/18
| FCA CP18/2**

Financial Services Compensation Scheme – Management Expenses Levy Limit 2018/19

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Financial Services Compensation Scheme – Management Expenses Levy Limit 2018/19

January 2018

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Information provided in response to this consultation, including personal information, may be subject to publication or release to other parties or to disclosure, in accordance with access to information regimes under the Freedom of Information Act 2000 or the Data Protection Act 1998 or otherwise as required by law or in discharge of our statutory functions.

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Responses are requested by:
Friday 16 February 2018.

Please address any comments or enquiries to the PRA at CP3_18@bankofengland.co.uk by the response deadline as set out above. The PRA is accepting responses on behalf of the FCA.

The Financial Conduct Authority (FCA) makes all responses to formal consultation available for public inspection unless the respondent requests otherwise. The FCA will not regard a standard confidentiality statement in an email message as a request for non-disclosure.

Despite this, the FCA may be asked to disclose a confidential response under the Freedom of Information Act 2000. The FCA may consult respondents if it receives such a request. Any decision the FCA makes not to disclose the response is reviewable by the Information Commissioner and the Information Rights Tribunal.

All FCA publications are available to download from www.fca.org.uk. To receive this paper in an alternative format, please call 020 7066 0790 or email *publications_graphics@fca.org.uk*, or write to *Editorial and Digital team, Financial Conduct Authority, 25 The North Colonnade, Canary Wharf, London E14 5HS*.

Contents

1 Overview

1.1 This Prudential Regulation Authority (PRA) and Financial Conduct Authority (FCA) consultation paper (CP) sets out proposals for the management expenses levy limit (MELL) for the Financial Services Compensation Scheme (FSCS).

1.2 Under the Financial Services and Markets Act 2000 (FSMA),[1] the PRA and the FCA must set a limit for the total management expenses which the FSCS can levy on financial services firms, the MELL.

1.3 The MELL ensures that the FSCS has adequate funding to exercise the functions conferred on it by Part XV of FSMA. The FSCS performs a number of functions, these include: processing compensation claims resulting from the failure of financial services firms, making recoveries from failed financial institutions, helping maintain consumer awareness of deposit protection, and the verification of account information provided by firms that enables faster pay-out to depositors.

1.4 The MELL is the maximum amount which the FSCS may levy in a year without further consultation, and is proposed to be £77.7 million for 2018/19. This includes a management expenses budget of £72.7 million and an unlevied contingency reserve of £5 million. The proposed MELL limit of £77.7 million would apply from 1 April 2018, the start of the FSCS' financial year, to 31 March 2019.

1.5 This consultation is relevant to all PRA and FCA authorised firms, but contains no material of direct relevance to retail financial services consumers or consumer groups upon which they might need to act. As costs may be passed on to consumers in the form of higher prices, consumers may indirectly meet a part of the FSCS levies. However, an efficient and adequately funded compensation scheme is beneficial to all consumers.

1.6 Chapter 3 of this CP contains an analysis of the costs and benefits of the proposed rules (including the impact on mutual societies) as required under FSMA,[2] and a statement regarding the PRA's and the FCA's respective competition objectives. Chapter 3 also contains the PRA's and the FCA's assessment of the compatibility of the proposed rules with their respective statutory objectives and regulatory principles as set out in FSMA,[3] and their duty to have due regard to the need to eliminate discrimination and to promote equality of opportunity in carrying out their policies, services and functions.[4]

Responses and next steps

1.7 This consultation closes on Friday 16 February 2018. The PRA and the FCA invite feedback on the proposed MELL set out in this consultation. Please address any comments or enquiries to CP3_18@bankofengland.co.uk. The PRA is accepting responses on behalf of both the PRA and the FCA, and responses will be considered by both authorities.

1.8 Following this consultation, the PRA and the FCA will issue respective policy statements or equivalent Handbook notices (as appropriate) so that the final rules can be in place for the start of the FSCS' financial year on 1 April 2018.

1 Section 223(1) FSMA.
2 Sections 138I, 138J and 138K of FSMA.
3 Sections 2H and 3B of FSMA.
4 Section 149(1) of the Equality Act 2010.

2 Proposals for the MELL in 2018/19

2.1 In this chapter, we consult on the FSCS' MELL for 2018/19. The MELL covers the costs of operating the scheme and is the maximum amount that the FSCS can levy in order to fulfil the obligations imposed on it by PRA and FCA rules.[1]

2.2 The MELL has two components: the management expenses budget and a contingency reserve. The MELL does not include claimants' compensation costs, which are levied separately and are determined by the FSCS.

2.3 The FSCS' actual expenses for the year may differ from its budget according to the total number and type of claims received. At the end of the financial year, the FSCS will perform a reconciliation of the actual expenses for the year against the total amount levied and the allocation across classes. Any changes will be reflected by providing rebates or using any unspent levies to reduce firms' future levies.

2.4 The proposed rules through which the PRA and the FCA will set the MELL are in Appendices 1 and 2, respectively.

Management expenses budget

2.5 The proposed management expenses budget for 2018/19 is £72.7 million. The management expenses budget covers the FSCS' ongoing operating expenses and includes the FSCS' IT, outsourcing, legal and claims handling costs.

2.6 This is an increase of 5% (£3.5 million) over the 2017/18 budget driven by a proposed increase in the capacity of its credit facility and a number of one-off costs. Further detail is provided in the 'Management Expenses budget – further detail' section below.

2.7 The management expenses budget component of the MELL is made up of:

(i) a specific costs element, which includes the costs of assessing claims, achieving recoveries and making payments relating to a particular funding class. Specific costs are allocated based on the volume of claims in each funding class;[2] and

(ii) a base costs element, which is related to the general running costs of the FSCS (and is not dependent on the level of the claims received). Base costs are split equally between the PRA and FCA regulatory fee blocks and then allocated in proportion to regulatory fees.

2.8 Appendix 4 provides a breakdown of the MELL by specific and base costs and the allocation to funding classes.

Contingency reserve

2.9 The contingency reserve allows the FSCS to raise additional funds at short notice to meet costs that were not foreseen when the management expenses levy was raised. The contingency reserve can be levied without further formal consultation by the PRA and the FCA.

2.10 The proposed contingency reserve for 2018/19 is £5 million. The FSCS has reviewed the level required and considers that a £5 million reserve is sufficient. This represents a reduction of 5.7% (£0.3 million) from the 2017/18 contingency reserve.

1 The relevant PRA and FCA rules comprise the Depositor Protection Part, the Policyholder Protection Part, the Dormant Account Scheme Part, the FSCS Management Expenses Levy Limit and Base Costs Part, and the Management Expenses in Respect of Relevant Schemes Part of the PRA Rulebook, and the FEES section of the FCA handbook.

2 FSCS' funding classes comprise groupings of activities regulated by the PRA and the FCA for which the FSCS offers protection. Management expenses are allocated to the relevant classes based on proportionate level of activity in the funding classes.

2.11 The contingency reserve is an important part of the FSCS' contingency planning and was used in March 2017 following the failure of Enterprise Insurance Company. The FSCS liaised with stakeholders including the PRA, the FCA and trade associations before utilising the contingency reserve, and will do so in future should it need to use the contingency reserve.

Compensation costs

2.12 The FSCS' compensation costs levy, which covers compensation paid to consumers, is determined separately by the FSCS and is not consulted on. The FSCS will indicate its current estimate of compensation costs and its related funding and levies in its 2018/19 Plan and Budget, and confirm them in early April 2018. The FCA is currently carrying out a review of the funding of the FSCS' compensation costs, and is consulting on proposals in CP17/36.[1] The consultation is open until Tuesday 30 January 2018.

Management expenses budget – further detail

2.13 In this section the management expenses budget is presented, broken down by activity. Its key lines are explained, with a focus on the main changes from last year.

Table 1: Management expenses, activity-based costing

	Budget 2018/19 in £m	Budget 2017/18 in £m	Change in £m
Claims handling infrastructure and support	**51.0**	**50.2**	**0.8**
Outsourced claims handling	16.2	16.2	0.0
Internal claims handling support	7.5	7.4	0.1
IT, facilities and central services	22.8	20.1	2.7
Investment: systems maintenance and improvement	4.5	6.5	-2.0
Bank charges	**7.6**	**5.9**	**1.7**
Depositor protection, investment, recoveries and pension deficit	**14.1**	**13.1**	**1.0**
Depositor protection	4.3	4.7	-0.4
Recoveries	3.9	4.0	-0.1
Investment: digital and outsourcing	3.5	2.5	1.0
Pension deficit funding	2.4	1.9	0.5
Total management expenses	**72.7**	**69.2**	**3.5**

2.14 Claims handling infrastructure and support: This constitutes the largest part of the management expenses budget, and amounts to £51.0 million, or 70% of the total budget.

- Outsourced claims' handling costs amount to £16.2 million and is unchanged from last year. The FSCS expects to make efficiency savings as a result of recent investments in its claims handling process. These savings will offset the costs resulting from an expected increase in the number of claims and the increase in the proportion of complex claims.

1 www.fca.org.uk/publication/consultation/cp17-36.pdf.

- The budget for IT, facilities and central services will increase by £2.7 million. The FSCS has advised that a significant portion of the increase relates to one-off costs including required changes to the claims handling system for general insurance claims, replacement of IT hardware, activities related to Brexit and the implementation of the FCA's funding review.

- Spending on systems maintenance and improvement will decrease by £2 million, following significant investment in 2017/18.

2.15 Bank charges: The FSCS maintains a borrowing facility, available within one business day, to fund pay-outs following significant failures. The budget for the facility is increasing by £1.7 million to fund an increase in the capacity of the facility from £1.1 billion to £1.45 billion The FSCS is obliged to have a facility that is set at the compensation levy limit for deposit takers (£1.5 billion), less the amount which the FSCS has already committed to levy deposit takers for compensation costs in the following financial year. Following the major bank failures of 2008/9, there were significant levies on the deposits class which reduced the available capacity of the facility. In 2018/19, the FSCS expects to have recovered the majority of the debt associated with the 2008/9 failures. This reduces the expected compensation levies on deposit takers and under the formula, leads to an increase in the facility.

2.16 Depositor protection, investment, recoveries and pension deficit: This covers legal expenditure on recoveries from insolvencies, consumer awareness, Single Customer View (SCV) file reviews, improvements to the FSCS' claims handling system and updating outsourcing arrangements.

- Within depositor protection, the FSCS will reduce its spending on consumer awareness through refocusing its advertising strategy on a smaller number of longer periods of advertising.

- Spending on investment will increase by £1 million as it consolidates its outsourcing arrangements with a single supplier and develops a new digital strategy.

- On the advice of the Trustees, spending on the FSCS pension deficit will increase by £0.5 million.

2.17 The staff budget is unchanged from 2017/18 (£18.6 million, see Appendix 3). The FSCS is planning a reduction from 212 to 206 full-time equivalent (FTE) employees, as a result of significant investments in the FSCS' IT systems for claim processing. The FSCS proposes a 1% general pay increase. The FSCS also propose targeted pay rises in key areas which include IT and Data, where the FSCS has been facing retention and recruitment issues. The targeted pay rises account for £170,000 of the £18.6 million total staff budget.

Investment budget

2.18 Following responses to last year's consultation, the FSCS has changed its reporting to increase the transparency of its investment spending. Regular system maintenance costs are now reported separately from specific improvement project costs. This shows that the majority of the FSCS' investment spending (£4.5 million) relates to necessary maintenance work on its core IT, data and security systems (please refer to Table 1, *Investment: systems maintenance and improvement*). Expenditure on specific improvements to customer service and claims handling systems totals £3.5 million.

2.19 Budgeted investment spending for 2018/19 will initially be levied equally between PRA and FCA funding classes. The FSCS has explained that it will perform a reconciliation to ensure the costs are appropriately allocated to the relevant PRA or FCA funding class at the end of the financial year, with adjustments to subsequent levies to reflect this allocation. Rebates, if required, will be provided in the following year's levy.

Budget allocation

2.20 This year, the FSCS has updated its methodology for allocating specific costs to individual classes based on claims activity. The new method uses claims volumes rather than estimated effort. The FSCS believes this is a fairer allocation of £15 million of specific costs and is the main reason for the individual class changes. The FSCS has changed the allocation of the credit facility from a base cost shared across all firms to a specific cost for the deposits class. The FSCS believes that this is a fairer way to apportion the costs of the credit facility as it is most likely to be used following the failure of a deposit taker. Appendix 4 contains a breakdown of the FSCS' budget by funding class.

2.21 Further information on the FSCS' proposed management expenses budget is included in its 2018/19 Plan and Budget, due to be published on Friday 19 January 2018 on the FSCS website.[1]

3 Statutory obligations

Cost-benefit analysis

3.1 Under FSMA, the PRA and the FCA are required to carry out and publish a cost benefit analysis when proposing draft rules.

3.2 Setting the MELL at the specified level of £77.7 million allows the FSCS to raise funds to cover its expenses so it can continue to operate and to meet its objective of providing a compensation scheme that is efficient, fair, approachable and responsive.

3.3 The FSCS delivers direct benefits to consumers through the payment of compensation to eligible claimants in the event of firm failure. While the wider benefits of the FSCS are hard to quantify, the direct benefit to consumers from FSCS compensation is expected to be £400 million in 2017/18. This reduces consumers' financial loss and increases consumer confidence in authorised financial services firms. This is particularly important for depositors, as timely compensation in the event of the failure of a deposit taker helps ensure consumer confidence in the financial system.

3.4 Compensation pay-outs are offset by the recoveries made by the FSCS from the estates of failed firms or from third parties responsible for the losses. The amount that the FSCS will recover in 2018/19 is not known. However, during 2017/18, the FSCS recovered over £10 billion from the Bradford & Bingley estate and £150 million from other insolvencies.

3.5 The contingency reserve of £5 million will give the FSCS some margin to meet costs that exceed its budgeted expenses and that need to be funded at short notice. The PRA and the FCA recognise that the FSCS needs to be able to respond quickly and efficiently to firm failures. Should the FSCS require funding beyond the limit imposed by the MELL due to exceptional circumstances, the PRA and FCA would urgently consider the request.

3.6 The MELL includes funding which will enable the FSCS to transition to a new arrangement with a sole outsourcer. The FSCS has explained that this will provide cost savings and improve

1 www.fscs.org.uk/industry/publications/plan-and-budget/.

the efficiency with which the organisation can offer protection to customers of failed financial services firms in the medium term.

3.7 Management expenses are charged to firms and may be passed on to consumers in the form of higher prices. Overall the PRA and the FCA consider that the benefits of raising the MELL outlined above outweigh the costs placed on industry, and indirectly passed to consumers, primarily because the provision of compensation in the event of the failure of a financial services firm helps to ensure consumer confidence in the financial system.

Impact on mutual societies

3.8 Management expenses are levied on all authorised firms according to the volume of regulated financial services business they conduct. This includes mutual societies. The impact on mutual societies is therefore not considered disproportionate to other types of firm.

PRA general duties and regulatory principles

3.9 The PRA must, when discharging its general functions, so far as is reasonably possible, act in a way that advances its general objective – ie promoting the safety and soundness of PRA-authorised firms.[1]

3.10 The PRA must carry out that objective primarily by:

- seeking to ensure that the business of PRA-authorised persons is carried on in a way which avoids any adverse effect on the stability of the UK financial system; and
- seeking to minimise the adverse effect that the failure of a PRA-authorised person could be expected to have on the stability of the UK financial system.

3.11 The PRA believes that the proposed rule on setting the MELL is compatible with these statutory obligations. The continued operation of the FSCS with a MELL set at an appropriate level assists in minimising the adverse effect of the failure of a PRA-authorised person on consumers and so helps promote stability of the UK financial system as well as confidence in the UK financial system.

3.12 The PRA has an additional primary objective for insurance. In addition to promoting insurers' safety and soundness, thereby supporting the stability of the UK financial system, it has an insurance objective to contribute to securing an appropriate degree of protection for those who are or may become policyholders.[2] The PRA considers that the proposed rule to set the MELL is compatible with this duty because the continued operation of the FSCS with a MELL set at an appropriate rate assists in securing an appropriate degree of protection for policyholders of a PRA-authorised person that has failed.

3.13 When discharging its general functions in a way that advances its objectives the PRA must, so far as is reasonably possible, act in a way which, as a secondary objective, facilitates effective competition in the markets for services provided by PRA-authorised persons in carrying on regulated activities.[3]

3.14 The MELL is not expected to have any adverse effect on competition as it is applied to firms in proportion to their share of FSCS protected business within their funding class. Any

1 Section 2B of FSMA.
2 Section 2C of FSMA.
3 Sections 2H (1), 2H(2) and 3B of FSMA.

levy on a firm as a result of this proposal will take into account the business volume of the firm levied, as well as the claims received in the relevant classes; as such the MELL is not likely to disadvantage specific groups of firms (in particular smaller firms).

HM Treasury recommendation letter

3.15 HM Treasury has made recommendations to the Prudential Regulation Committee (PRC) about aspects of the Government's economic policy to which the PRC should have regard when considering how to advance the objectives of the PRA and apply the regulatory principles set out in FSMA.[1] The PRA considers that the recommendations most relevant to the proposals in this CP are:

(i) competition;

(ii) trade;

(iii) a better outcome for consumers;

(iv) diversity of business models; and

(v) competitiveness.

3.16 Recommendation (iii) has been considered in paragraphs 3.3 and 3.6, and recommendation (i) in paragraphs 3.13 and 3.14. The PRA considers that an appropriately funded compensation scheme will enhance consumers' trust in UK regulated firms. This will help to ensure that the UK remains an attractive domicile for internationally active financial institutions, and that London retains its position as a leading financial centre.

FCA general duties and regulatory principles

3.17 Section 138I(2)(d) of FSMA requires that a consultation undertaken by the FCA includes an explanation of the FCA's reasons for believing that making the proposed rules is compatible with its duties under section 1B(1) and (5)(a). These are commented on below.

3.18 In discharging its general functions the FCA must, so far as is reasonably possible, act in a way which: (a) is compatible with its strategic objective; (b) advances one or more of its operational objectives (section 1B(1) of FSMA); and (c) has regard to the regulatory principles set out in FSMA (section 1B(5)(a) and section 3B). In addition, the FCA must discharge its general functions in a way which promotes effective competition in the interests of consumers (section 1B(4)).

3.19 The FCA believes that the proposed MELL is compatible with the regulatory principles. In particular, the FCA believes that an appropriate balance has been struck between the need to ensure the FCA's regulatory objectives are fulfilled and the need to keep regulatory burdens to a minimum. See below for further information.

3.20 The proposal is compatible with the duty to promote effective competition in the interests of consumers. Any levy placed on a firm as a result of this proposal will take into account the firm's size, and as such is not likely to disadvantage specific groups of firms (in particular smaller firms).

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1 Information about the PRC and the recommendations from HM Treasury are available on the Bank's website at www.bankofengland.co.uk/about/people/prudential-regulation-committee.

3.21 The proposal set out in this consultation is primarily intended to advance the FCA's operational objective of consumer protection. The role of the FSCS is, in general, to provide compensation to consumers of financial products when authorised firms are unable, or likely to be unable, to meet their obligations. A compensation scheme provides a safety net, offering protection to consumers, which in turn leads to greater confidence in their dealings with financial services firms, benefiting all firms and leading to a stronger financial system. If the FSCS was unable to process claims because of financial constraints due to an inappropriate MELL this would undermine the protection offered to consumers.

3.22 In light of this, the FCA believes that the proposed FSCS MELL is appropriate. The limit proposed ensures the FSCS has adequate resources to perform its functions for the coming year. In addition, in setting the MELL for 2018/19, the PRA and FCA have allowed for sufficient contingency reserve to prevent disruption to the FSCS' work if they need to exceed their operating budget for unexpected reasons.

3.23 Setting an FSCS MELL figure has no material significance for the reduction of financial crime objectives.

Compatibility with the regulatory principles – PRA and FCA

3.24 This section comments on how this proposal to set the MELL meets the requirement that the PRA and the FCA must have regard to the regulatory principles outlined in section 3B of FSMA in discharging their respective general functions.

3.25 The regulatory principles most relevant to this proposal are:

(a) The need to use the resources of each regulator in the most efficient and economical way.

3.26 The FSCS is operationally independent of, but accountable to the PRA and the FCA, which means that the PRA's and FCA's resources are not directly involved in carrying out the proposed activities.

3.27 The PRA and the FCA rules require the FSCS to use its resources in the most efficient and economical way when carrying out its functions. Setting the MELL, after public consultation, encourages good internal management and effective operating procedures.

(b) The principle that a burden or restriction should be proportionate to the benefits.

3.28 The PRA's and the FCA's assessment of the fairness and proportionality of the burden and benefits relating to this proposal can be found in the cost benefit analysis section of this consultation paper.

3.29 The PRA and the FCA have had regard to the Legislative and Regulatory Reform Act 2006 in the process of making this consultation.

Equality and diversity

3.30 In making their respective rules and establishing their practices and procedures, the PRA and the FCA may not act in an unlawfully discriminatory manner. They are required, under the Equalities Act 2010, to have due regard to the need to eliminate discrimination and promote equality of opportunity in carrying out its policies, services and functions.[1] To meet this

1 Section 149(1) of the Equalities Act 2010.

requirement, the PRA and the FCA have performed an assessment of the policy proposals and does not consider that the proposals give rise to equality and diversity implications. However, we would welcome any comments respondents may have on any equality issues they believe arise as a result of these proposals.

Appendices

1	**Draft PRA RULEBOOK: NON AUTHORISED PERSONS: FSCS MANAGEMENT EXPENSES LEVY LIMIT AND BASE COSTS INSTRUMENT 2018**
2	**FCA Rule Instrument: FINANCIAL SERVICES COMPENSATION SCHEME (MANAGEMENT EXPENSES LEVY LIMIT 2018/2019) INSTRUMENT 2018**
3	**FSCS management expenses by line item**
4	**FSCS management expenses by funding class**

Appendix 1- Draft PRA RULEBOOK: NON AUTHORISED PERSONS: FSCS MANAGEMENT EXPENSES LEVY LIMIT AND BASE COSTS INSTRUMENT 2018

PRA RULEBOOK: NON AUTHORISED PERSONS: FSCS MANAGEMENT EXPENSES LEVY LIMIT AND BASE COSTS INSTRUMENT 2018

Powers exercised

A. The Prudential Regulation Authority ("PRA") makes this instrument in the exercise of the following powers and related provisions in the Financial Services and Markets Act 2000 ("the Act"):

- section 137T (General supplementary powers);
- section 213 (The compensation scheme);
- section 214 (General); and
- section 223 (Management expenses).

B. The rule-making powers referred to above are specified for the purpose of section 138G(2) (Rule-making instrument) of the Act.

Pre-conditions to making

C. In accordance with section 138J of the Act (Consultation by the PRA), the PRA consulted the Financial Conduct Authority. After consulting, the PRA published a draft of proposed rules and had regard to representations made.

PRA Rulebook: Non Authorised Persons: FSCS Management Expenses Levy Limit and Base Costs Instrument 2018

D. The PRA makes the rules in the Annex to this instrument.

Commencement

E. This instrument comes into force on [**DATE**].

Citation

F. This instrument may be cited as the PRA Rulebook: Non Authorised Persons: FSCS Management Expenses Levy Limit and Base Costs Instrument 2018.

By order of the Prudential Regulation Committee
[DATE]

Annex

Amendments to the FSCS Management Expenses Levy Limit and Base Costs Part

In this Annex new text is underlined and deleted text is struck through.

…

2 LIMIT ON MANAGEMENT EXPENSES LEVIES

2.1 The total of all *management expenses levies* attributable to the period 1 April ~~2017~~ 2018 to 31 March ~~2018~~ 2019 of the *deposit guarantee scheme*, the *dormant account scheme* or the *policyholder protection scheme* may not exceed ~~£74,540,000~~ £77,661,000 less whatever *management expenses levies* the *FSCS* has imposed in accordance with *FCA compensation scheme rules* attributable to that period.

Appendix 2 – FCA Rule Instrument: FINANCIAL SERVICES COMPENSATION SCHEME (MANAGEMENT EXPENSES LEVY LIMIT 2018/2019) INSTRUMENT 2018

FINANCIAL SERVICES COMPENSATION SCHEME (MANAGEMENT EXPENSES LEVY LIMIT 2018/2019) INSTRUMENT 2018

Powers exercised

A. The Financial Conduct Authority makes this instrument in the exercise of the following powers and related provisions in the Financial Services and Markets Act 2000 ("the Act"):

(1) section 137T (General supplementary powers);
(2) section 213 (The compensation scheme);
(3) section 214 (General); and
(4) section 223 (Management expenses).

B. The rule-making powers listed above are specified for the purposes of section 138G(2) (Rule-making instruments) of the Act.

Commencement

C. This instrument comes into force on 1 April 2018.

Amendments to the Handbook

D. The Fees manual (FEES) is amended in accordance with the Annex to this instrument.

Citation

E. This instrument may be cited as the Financial Services Compensation Scheme (Management Expenses Levy Limit 2018/2019) Instrument 2018.

By order of the Board
[*date*]

Annex

Amendments to the Fees manual (FEES)

In this Annex, underlining indicates new text.

6 Annex 1R **Financial Services Compensation Scheme – Management Expenses Levy Limit**

This table belongs to FEES 6.4.2R	
Period	Limit on total of all management expenses levies attributable to that period (£)
…	
1 April 2017 to 31 March 2018	£74,540,000
1 April 2018 to 31 March 2019	£77,661,000

Appendix 3 - FSCS management expenses by line item

	Budget 18/19 (£m)	Budget 17/18 (£m)	Variance (£m)
Staff Costs	17.8	17.8	0.0
Contractor Costs	0.8	0.8	0.0
Facilities	3.1	2.9	0.2
IT	3.9	3.8	0.1
Communications	3.7	4.0	-0.3
Legal & Professional	4.0	4.1	-0.1
External Providers	1.6	0.9	0.7
Depreciation	0.4	0.2	0.2
Other	1.1	0.5	0.6
Outsourced Claims	15.0	14.4	0.6
Outsourced Printing	0.7	0.9	-0.2
Resilience - Insurance	0.5	0.0	0.5
Investment - Digital	2.0	1.1	0.9
Investment - Outsourcing	1.5	1.4	0.1
Investment - Sustain/Improve	4.5	6.5	-2.0
Bank Charges	7.6	5.9	1.7
Recoveries Litigation	2.1	2.1	0.0
Pension	2.4	1.9	0.5
Total	**72.7**	**69.2**	**3.5**
FTE	**206**	**212**	**- 6**

Appendix 4 - FSCS management expenses by funding class

	2017/18			2018/19			Movement 17/18 vs 18/19		
	FSCS Total Costs £'000	PRA Fee Block Allocation £'000	FCA Fee Block Allocation £'000	FSCS Total Costs £'000	PRA Fee Block Allocation £'000	FCA Fee Block Allocation £'000	FSCS Total Costs £'000	PRA Fee Block Allocation £'000	FCA Fee Block Allocation £'000
Base Costs Total (Split 50:50)	**27,869**	**13,934**	**13,934**	**25,688**	**12,844**	**12,844**	**-8%**	**-8%**	**-8%**
Specific Costs									
Deposits	11,127	11,127		13,976	13,976		26%	26%	
General Insurance Provision	4,165	4,165		6,853	6,853		65%	65%	
Life & Pension Provision	5	5		3	3		-36%	-36%	
General Insurance Intermediation	6,479		6,479	7,875		7,875	22%		22%
Life & Pension Intermediation	7,513		7,513	9,215		9,215	23%		23%
Investment Provision	11		11	-		-			
Investment Intermediation	10,710		10,710	7,862		7,862	-27%		-27%
Home Finance Intermediation	1,362		1,362	1,187		1,187	-13%		-13%
Specific Costs Total	**41,371**	**15,297**	**26,074**	**46,972**	**20,832**	**26,140**	**14%**	**36%**	**0%**
Management Expenses Total	**69,240**	**29,231**	**40,009**	**72,661**	**33,676**	**38,984**	**5%**	**15%**	**-3%**